UNITED STATES OF AMERICA

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DEPARTMENT OF THE TREASURY

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FINANCIAL MANAGEMENT SERVICE

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ELECTRONIC FUNDS TRANSFER 99 PUBLIC HEARING

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TUESDAY

OCTOBER 14, 1997

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DALLAS, TEXAS

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The above-entitled matter came on for Public Hearing, pursuant to notice, on the 2nd Floor of the Federal Reserve Bank, 2200 N. Pearl Street, Dallas, Texas, at 9:00 a.m, Betsy Lane, Moderator, presiding.

APPEARANCES:

GOVERNMENT PANEL

DONALD HAMMOND, Fiscal Service

BETTSY LANE, Financial Management Service

LARRY STOUT, Financial Management Service

CREDIT UNIONS - PANEL #1

MARITTA BUSH, Texas Credit Union League

JIM GRAY, Vought Heritage Federal Credit Union

JUDY BECK, Southwest Corporate Credit Union

STAN HOLLEN, Credit Union National Association Payments Sub-Committee

CONSUMER ISSUES - PANEL # 2

FEE COGBURN, American Association of Retired Persons (AARP)

ERNEST BROWN, Housing Committee of Texas Acorn

ELENA CORTEZ, Voice of Senior Citizens

ROGER GETTE, Legal Services of North Texas

STAN PAUR, Pulse EFT Association

A-G-E-N-D-A

P-R-O-C-E-E-D-I-N-G-S

(9:15 a.m.)

MR. HAMMOND: Good morning and thank you for your patience this morning.

This is, of course, the first public hearing and so, we're getting into the swing of things a little slowly this morning. But, I appreciate your indulgence.

I'm Don Hammond. I'm the Deputy Fiscal Assistant Secretary at Treasury. And, I'd like to welcome you to the first of our three public hearings on the EFT 99 initiative, and particularly with response to our proposed regulation.

EFT 99 is an important initiative for us and we think it's an equally important initiative for many interested parties. And we hope today, through this process and through the rulemaking process, to solicit the comments, the insights, and the reactions of you all as we go forward.

We appreciate your interest in this important matter and we look forward to hearing from you today and as we go forward in the rulemaking process.

Today's hearing is the first of the three public hearings and will be part of our rulemaking process as we move forward. Our next hearing will be Monday, October 20th, in New York City, and our final hearing will be on October 30th in Baltimore.

Before we proceed, I would like to thank the Federal Reserve Bank today for the use of its fine facilities and for managing the logistics of today's event. As usual, they've done an outstanding job.

I would also like to introduce my fellow panelists this morning representing the Federal government. To my right is Larry Stout. He's the Assistant Commissioner at the Financial Management Service for Federal Finance. And to my left is our moderator this morning, Bettsy Lane, who is the Director of the Cash Management Directorate, also at the Financial Management Service.

In writing the proposed regulations, which I believe have now been out almost a month for public comment, the Treasury Department met with and solicited comments and insights from a wide range of public interest groups, effected stakeholders, and interested parties. We did this because we think that this is an important process that requires the participation and the insights from a wide range of people. And we think that as we go forward in this monumental shift, that we think that it's very important to have the active and ongoing participation of a wide range of parties.

In developing the proposed regulations, we tried to keep four basic principles in mind as we went forward, and we'd like to have your insights today, and as you go forward commenting on the regulation, on the various components and how it effects these four basic principles.

The first principle is that the transition to EFT should be accomplished with the interests of recipients being of paramount importance.

Second is that our policies should maximize private sector competition for the business of handling federal payments so that recipients not only have a broad range of payment options, but also receive their payments at reasonable cost with substantial consumer protections and with the greatest possible convenience, efficiency, and security.

Third, recipients, and especially those having special needs, the elderly, individuals with physical disabilities, and those living in remote or rural communities should not be disadvantaged by the transition to EFT.

And fourth, the EFT 99 program should bring recipients without bank accounts into the mainstream of the financial system.

With these criteria in mind, I would like to, again, stress how essential your input is today and throughout the comment period in -- to writing a final regulation that is both fair, practical, as well as meeting all recipients' varying needs.

At this point in the process, I'd like to turn things over the Bettsy Lane who is our moderator, and we'll move forward this morning.

Thank you.

MODERATOR LANE: Thank you, Don.

We're pleased to have all of you here this morning at our first public hearing. And we're especially pleased to have such diversity and regional representation on the two panels that will be testifying this morning.

The first panel is composed of representatives from Credit Unions. The second panel is a mix of people looking more at consumer issues. We are asking that each witness his or her remarks to ten minutes. And after all the witnesses on a panel have concluded their remarks, there will be time for clarification or questions from the government panel.

I'd like to remind you all that we are in a rulemaking process. And what that means is that the Treasury representatives may not be able to answer all of your questions this morning. We are seeking input. In fact, as I said, we're seeking regional input. We're especially interested in what you have to tell us.

In addition to the Treasury panel members here, there are representatives from other federal agencies, someone from the Veterans Administrations and the Social Security Administration.

These hearings are a critical part of the rulemaking process and we want to hear all of the input that we can. We will be asking a court reporter to document the proceedings this morning so that a transcript will be available. After approximately two weeks, that transcript or the documentation of this meeting, will be available on Treasury's web site. So, you will all be able to receive it.

I'd like to ask the panel members -- the witnesses who have not given their testimony to a Treasury representative to please do that.

Before introducing our panel members this morning, I'd just like to make a couple of administrative announcements.

First of all, I'd like to give you a phone number that you can use if you want to call and have someone call you back, or if you want to be reached. It's 922-6014.

The second administrative matter, there will be a number of people leaving all at once from the building. The Federal Reserve has offered if people would like to sign up for cabs, they will call a cab and have the right number of cabs here, taxis, to take you back to wherever you're going.

With that, I'd like to introduce the first panel members. Maritta Bush is the senior vice president of the Texas Credit Union League. Jim Gray is the president of Vought Heritage Federal Credit Union. Jody Beck is a senior vice president of operations, Southwest Corporate Credit Union. Lea Baines is not here this morning. We were waiting to see if she arrives and we're going to go ahead at this point. Perhaps we can have her on the second panel. Stan Hollen is the chairman of the Credit Union National Association Payments Subcommittee.

So, we welcome you and we're ready if you'd like to begin testifying.

MS. BUSH: Thank you. Is this on? Go ahead?

The Texas Credit Union League is this state's credit union trade association and on behalf of the 796 federal and state chartered credit unions in Texas, we appreciate the opportunity to present testimony relating to Proposed Rule 31 CFR Part 208, the management of federal agency disbursements.

In our written testimony, we have provided statistics on Texas credit unions as far as their asset size. I believe this is fairly representative of what you will find through other parts of the country.

Of the 5.5 million Texans who are credit union members, approximately 30 percent of them belong to the category of credit unions which are above $250 million in assets. Regardless of its size, every credit union has access to a support organization which provides EFT services.

Credit unions serve a wide diversity of Americans. Twenty-seven percent are related to manufacturing. Twenty-seven percent service industries. Twenty percent governmental. Thirteen and a half percent associational. Six percent residential. And another six and a half percent in other categories. Because of these diverse demographics, credit unions have significant experience in delivering services to consumers from a variety of backgrounds.

In the United States, 346 credit unions

have been chartered to serve consumers of limited means by providing services with affordable fees. In Texas, there are 55 credit unions that are designated as community development credit unions. Their primary purpose is to reach out to people who may otherwise not have access to financial services and to improve the financial well being of those members.

In order to provide services to the 10 million "unbanked" Americans, it should e noted that credit unions operate in a restrictive field of membership environment. If credit unions are to play an integral role in the payment of EBT, we request that the Treasury Department work in concert with the National Credit Union Administration in support of a broadened membership base for credit unions.

The concept of electronic benefits is not new to credit unions. We have had significant experience with electronic posting of payroll deduction, net payroll, Social Security payments, federal retirement, railroad retirement, and other federal and state treasury payments for years. Of the

11,700 credit unions in the United States, nearly 70 percent serve as receiving points for federal direct deposit payments.

Some credit unions choose to maintain Federal Reserve Bank accounts and receive electronic payments directly. Others have chosen correspondent relationships with their corporate credit unions which are designated as bankers' banks by the Federal Reserve. U.S. Central Credit Union and the 37 corporate credit unions throughout the United States have created an efficient, electronic payment system which enabled all credit unions to participate in the receipt of electronic payments. In addition to the technical capabilities, credit unions also benefit from continuous training offered through corporate credit unions which staff expertise in the EFT arena.

We now turn our attention to the proposal and wish to commend the Treasury Department's effort to gain efficiency by converting paper payments to electronic transfers. We share the Treasury's concern for providing service to the estimated 10 million of "unbanked" Americans.

It is our opinion that the electronic delivery of Treasury payments would best be administered through a voluntary or optional program. Regarding the issue of financial institutions versus non-financial institutions, we are not opposed to the latter providing that a system is implemented to regulate and monitor the practices of all payment agents.

Credit unions and other financial institutions are currently regulated by a number federal and state agencies to ensure the integrity of the payment systems. In the event that non-financial are authorized as payment agents, we strongly urge the Treasury to consider extending its oversight to these institutions as well.

In addition to the nearly 350 federal credit unions designated as low income, in the past three years 77 other credit unions have brought stable, affordable, financial services to 1.4 million Americans by just adding low income areas to their current field of membership. These facts demonstrate that credit unions are experienced in meeting the financial needs of the undeserved.

The Texas Credit Union League believes that the account structure of EBT should be left to the option of the institution which is authorized as a payment agent. Currently, the NCUA rules and regs currently permit credit unions to offer four different types of accounts in order to act as fiscal agents of the Treasury.

Regarding fees, we believe that it is critical that Americans are protected from excessive charges in meeting their financial needs. At the same time, we recognize that payment agents must be able to cover their costs in delivering electronic services. Credit unions have a long history of assessing fees that are fair, affordable, and equitable. Because credit union members are also the owners of their institutions, it stands to reason that credit unions operate in the best financial interest of those they serve.

We do have some concerns relating to the risks incurred by the authorized payment agents. We request that the Treasury address the risk of potential liability of a payment agent in relation to Regulation E, or in the event of an erroneous disbursement or an improper account closure.

Closely related, we are not comfortable that the costs of EBT have been adequately addressed and are fully understood by potential payment agents. Any institution which is contemplating becoming a payment agent for the Treasury will need a full understanding of the complete financial impact upon its institution. We request that the Treasury disclose detailed cost analyses associated with EBT.

Again, in closing, we appreciate the opportunity to provide input to the Treasury regarding the management of federal agency disbursement. It is our strong conviction that credit unions are technically, geographically, and philosophically positioned to serve consumers by providing EBT services. We welcome the opportunity to work with the Treasury Department staff, not only on issues relating to this proposal, but also in the implementation of EFT 99.

Thank you.

MR. GRAY: I'm Jim Gray. I'm president of Vought Heritage Federal Credit Union. First of all, I'll give you a little background on my credit union.

We're approximately $295 million in assets. We serve about 48,000 members. Our office locations are in Grand Prairie, Arlington, and Athens. Primarily, we serve a heavy manufacturing group. However, we have expanded and do serve a 300 sponsor company. But, our greatest emphasis in membership and so forth comes from heavy manufacturing.

As Maritta said, one of the things that would have to be addressed in order for our credit union to assist the Treasury and make any significant impact in serving the 10 million people that are currently outside of the banking system, would be to address the field of membership issue. Although we do serve a large number of sponsor companies, we would be limited to those who in some way are connected to those sponsor companies, probably the retirees that are receiving Social Security, and so forth. Otherwise, we could not serve outside of that.

I would certainly encourage the Treasury

Department to work with the National Credit Union Administration and the various state agencies that regulate state credit unions to expand our field of membership in order for us to be more effective in that program.

Also, in reading the report, to me, it was not clear exactly how this program was going to be implemented. I would encourage you to do that on a voluntary basis. I do feel that our credit union would be very interested, depending upon how the account was structured and so forth. But I do feel like it would be advantageous to all parties if it was on a voluntary basis and those that were interested in participating, then, could style their program accordingly and would bid on it accordingly from that standpoint.

I share with Maritta the concerns with regard to some of the costs involved here. While I certainly support the Treasury's efforts to reduce their costs, and they will reduce them in various areas in a significant way, my concern is that a large number of those costs will shift to the financial institutions that are acting as agents in a EBT program.

First of all, I think the inquiries that you have discussed in the program and reducing those by 1.7 million, that's true. I think they will be reduced to some degree. However, there will be some of those that will shift over to the financial institutions and that's where they will direct those calls. And so, the burden of staffing in order to handle that will then fall on the financial institution. It will shift from the Treasury, that's true.

Also, I feel that in the other areas of costs such as the risk that Maritta referred to with the checks and so forth now that are stolen, forged, lost, whatever the case may be and the Treasury's responsibility to replace those, difficulties in that -- in this program, will then again fall on the financial institution. Once it had been shifted through an electronic means or transferred to the financial institution, then through the card program there is risk there.

And the problem that I see is that that risk, then, falls on the financial institution. I see very little risk, really, in payments being deposited or transferred to the wrong account. However, there is great risk in the card program. That's one of the areas where we see greatest losses and the most rapid loss to financial institutions at the present time is through plastic cards.

So, there's a great deal of risk there that, again, like I said, would fall on the financial institution. But these things have got to be addressed in how the account is styled, and how the financial institution has the ability through the fees to recover those costs. These accounts, as I see them, will have small balances and you will not have the ability as a financial institution to invest the funds in order to recover your costs. You're going to have to recover them through some fees. And I think these items have got to be addressed in order to accomplish that.

The last item that I had of concern was in the area of ability to close the accounts. The way I understand it, the Treasury Department will have the discretion over whether accounts are to be closed or not to be closed. The process, I think, needs to be developed and needs to be discussed as to how that will be handled before we can step out as a financial institution and desire to participate in the program. Without a clear understanding of how that will be driven, then we cannot control our risks.

Occasionally we have to close accounts at our credit union due to the misuse of accounts or when a member has created a loss for our credit union. And in that event, we have closed the account. However, it's not clear to what that process that will take in this particular program and I think that needs to be clarified in order for anyone to step up and volunteer to participate in the program.

I would like to reemphasize, although I have expressed some concerns with regard to the cost and with regard to the financial institution's ability to recover those costs, the shifting of some of the costs from the Treasury to those financial institutions, that we would like the opportunity to do that. However, I think these areas need to be clarified before we would be able to say that we would like to participate in the program once we understand those. I think it would be better for us at that point in time and we could make a clear decision on what we want to do.

I do appreciate the opportunity to address the Treasury and state my views and my concerns. Again, I would like to emphasize that we would like to have the opportunity to at least evaluate the program to see if we would like to participate in it. I think credit unions are positioned, as Maritta said, extremely well to do that. Our credit union has both of the accounts that you referred to, both with the credit union system and with the Federal Reserve Bank. We have had those for some time and do have experience in dealing with the EFT program and the transfer of funds from direct deposit, and so forth.

I appreciate that and that completes my report.

MODERATOR LANE: Thank you, Mr. Gray.

Ms. Beck.

MS. BECK: Southwest Corporate Federal Credit Union appreciates the opportunity to address the Department of Treasury regarding the proposed rule commonly referred to as EFT 99. Southwest Corporate in the past has strongly supported and even promoted previous electronic initiatives of the Treasury, and we support the overall concept of this one as well. We're well aware of the benefits that could accrue as a result of this.

First, by way of some background for the panel and for those in the audience, Southwest Corporate is one of 37 corporate credit unions nationwide which function as bankers banks for the nearly 12,000 state and federally chartered credit unions. Southwest Corporate provides investment, credit, correspondent, and payment services to 1,200 member credit unions in a five state region.

Yes?

MODERATOR LANE: Excuse me. Try the other microphone. I don't think that one is working.

MS. BECK: This one is on.

MODERATOR LANE: Thank you. I apologize.

MS. BECK: Let me just start over because I feel that those in the back probably didn't hear.

I'd just like to say, starting, that we do appreciate, Southwest Corporate Federal Credit Union does appreciates the opportunity to address the Department of Treasury regarding the proposed rule commonly referred to as EFT 99. Southwest Corporate in the past has strongly promoted and has supported previous electronic initiatives of the Treasury, and we support this -- the overall concept of this one as well. We're well aware of the benefits that are out there and could accrue as a result of this.

First, by way of some background for the panel and the Treasury, and also for those out there in the audience, Southwest Corporate is one of 37 corporate credit unions nationwide which function as bankers banks for the nearly 12,000 credit unions -- state and federally chartered credit unions nationwide. Southwest Corporate provides investment, credit, correspondent, and payment services to 1,200 credit unions in a five state region. In representing Southwest Corporate at this hearing, it is my purpose to also speak for these 1,200 members as they are going to be impacted by the issues in this proposal.

While it's not possible to have all the details worked out in any proposal in the first draft, there are several unresolved issues and one of these is how designated agents will be selected. And today I am going to limit my remarks to that one issue.

We feel that financial institutions, including the credit unions, should have an opportunity to be considered as agents for these electronic benefit transfers if it is their desire to do so. However, there may be a possible misconception regarding the capabilities of credit unions to participate as agents. It is inherent in the proposal that, first and foremost, certain capabilities have to be in place to accommodate electronic benefit payments. None-financial institutions cannot easily participate because they don't have access to the current ACH EFT delivery system. And some feel that credit unions, particularly small credit unions, might also fall into this category and therefore wouldn't be considered candidates for agent status. I hope that my next few statements will put this fear to rest.

At the time the Monetary Control Act of 1980 was enacted, Southwest Corporate, as well as other corporate credit unions, began to implement services that would enable any credit union to take advantage of the payment capabilities that they were then allowed. Receipt of ACH payments was one of the first services that credit unions embraced and for nearly 20 years, credit unions of all sizes have received many types of ACH payments, nearly every type. And over 70 percent participate in the Treasury's Direct Deposit Program.

When electronic receipt was mandated from the Fed just a few years ago, the corporate credit unions stood ready to assist members who could not otherwise receive electronically. More recently, we have promoted the Treasury's Quick Start automated enrollment process and are functioning as a sending point for these entries for many credit unions.

Southwest Corporate is also working to assist credit unions with the proposed requirement to process addenda information on electronic payments.

So, today, virtually any credit union, either individually or through its corporate credit union, can participate in nearly any type of ACH activity and a vast majority do.

And as Maritta had originally -- had earlier referred to, in addition to the ACH network, U.S. Central Credit Union and the 37 corporate credit unions operate a very sophisticated internal automated settlement network which might also be used for this disbursement of payments. Many credit unions have a wide distribution systems through shared branch networks, and ATMs which could be utilized for this service. Southwest Corporate does provide an ATM program for its members and one of the largest ATM networks in the nation is owned and operated by credit unions. So, the issue of technology should not, therefore, be considered a barrier to agent status for credit unions.

Continuing on with the topic of how designated agents should be selected, it appears that credit unions are not only capable of receiving electronic payments, they also might be the best suited as payment agents for recipients who have not previously held an account at a financial institution. Credit unions have a long history of serving individuals of limited means and they generally provide a high level of personal service which would appeal to an individual not technically proficient in modern banking services.

And as the Treasury looks to ensure that the agents are geographically disbursed, I think it's important tot note that there are many areas of the nation where a credit union is the only financial institution that's geographically available. Personal service and problem resolution could be enhanced by having a local presence.

I have addressed only one aspect of this ruling. There are still many unresolved issues in the proposal and Southwest Corporate generally supports the views that have been addressed by other leaders of the credit union movement on these issues here today and through comments that you've received in the mail.

Now, I thank you, again, for the opportunity to express our views in this setting. We strongly support the Department in this overall direction. We would be very pleased to work with the Department in the implementation of EFT 99 within the credit union industry.

MODERATOR LANE: Thank you, Ms. Beck.

Mr. Hollen.

MR. HOLLEN: Good morning. I'm Stan Hollen. I'm President and CEO of Golden One Credit Union in Sacramento, California. I'm here today as the chairman of CUNA, Credit Union National Association's payment systems subcommittee.

Golden One is a member of the Federal Reserve System and Federal Reserve Bank of San Francisco, and is primarily a government employee credit union. We're the sixth largest U.S. credit union.

On behalf of CUNA, Credit Union National Association, I'm pleased to have the opportunity to reemphasize our support for Treasury's implement of the Debt Collection Improvement Act of '96. CUNA applauds the Treasury for holding these hearings on its proposed regulation. I'll make some oral comments. We have additional comments in our written documentation.

CUNA is the nation's largest credit union trade association, representing the country's more than 11,200 state and federally chartered credit unions which serve more than 73 million Americans. Credit unions are strong supporters of the Treasury's direct deposit programs with almost 70 percent of all credit unions serving as recipient point for their members' federal funds through the program. Credit unions are capable and willing to provide consumers access to their funds. In fact, credit union system has created several systems that help minimize the cost and make distribution more economical.

The credit union system's national EFT network currently provides ATM and point of sales services in an on-line environment to millions of credit union card holders. And for the most part, credit unions do not apply surcharge to members who withdraw funds at an ATM.

This same network has direct connection to retailers throughout the country, allowing credit unions to offer low cost debit access at the point of sale. On-line debit cards are enabling millions of consumers to obtain cash back at the point of sale without incurring a surcharge.

In addition, the credit union system has established a unique shared branch environment which enables a credit union member to obtain service at many other credit unions throughout the country. This is similar to the national ATM system that allow consumers to use virtually any ATM and still get to their institution. Credit unions have done this through many of our branches so that credit union members can go to a teller and it functions much the same way as an electronic switch.

Thousands of credit unions offer electronic access to funds through these delivery mechanisms. And they include audio response, automated teller machines, shared branches I just described, home banking, the Internet, smart cards.

Many credit unions access ACH services through their regional ACH clearing house association and others obtain that service through either a simple credit union, through corporate credit unions such as Southwest Credit Union -- In our case, Westport Credit Union -- or direct from the Fed using data interchange system called Connect One which is the case in Golden One's connection with the Fed. And a combination of these systems enables even the smallest credit union to receive electronic payments.

CUNA wants to ensure that any credit union which wants to participate in Treasury's bidding process to determine a designated financial agent to serve recipients who do not have an account has the opportunity to do so. However, we also strongly support the agency's efforts to encourage such recipients to select their own institution. This will enable Treasury to utilize the direct deposit and direct deposit II programs to distribute benefits in an efficient and cost effective manner.

CUNA urges Treasury to draw upon the resources and strong community connections credit unions have developed to reach out to recipients. The association wants to work with the Treasury in the further development of its public relations and marketing effort so that as many recipients as possible will be able to choose institutions rather than having one assigned to them.

Depending on how Treasury ultimately structures the electronic transfer account program, credit unions could play a vital role in helping to provide electronic delivery of government benefits to individuals who do not have a financial institution account. Unlike the other institutions, credit unions have reached out to low income communities across the country to provide services to individuals who are not able to receive them elsewhere.

We are urging that credit union participation be given full and fair consideration. The credit union system can provide safe, efficient delivery of federal payments to recipients and, indeed, it is doing so today. And credit unions, as well as other financial institutions, that want to be selected by Treasury as a designated financial agent for purposes of receiving funds electronically should have that opportunity.

There are several ways that the credit

union system could be utilized to provide benefit payments to recipients. Corporate and natural person credit unions could work together to distribute payments. Under this scenario, U.S. Central, the nation's largest corporate credit union -- maybe I should pause and define corporate credit union as opposed to a natural person credit union. It is a, corporate credit union is a banker's bank in terminology, a credit union only for other credit unions. Functions as a payment mechanism, a clearinghouse, investment, or correspondence facility unlike natural person credit unions that you or I might belong to.

U.S. Central, the nation's largest corporate credit union, provides correspondence services for many other credit unions, would be Treasury's first point of contact receiving federal payments for these distributed through the credit unions. U.S. Central will be responsible for transmitting payments to those credit unions which upon receipt distribute the funds to the accounts of member's recipients. The recipients could have access to their funds through ATMs and POS outlets connected to the national credit union EFT network as well as its branches.

Treasury should consider how it could best utilize the Federal Reserves' payment delivery mechanism to enhance the efficiency of the federal electronic delivery and EFT. For example, Treasury could provide recipient payments to the Fed which in turn could credit them to the Fed accounts and institutions participating in EFT. These institutions would then distribute the funds to the recipient account holders. The Fed would also serve as a safety net and process EFT transactions that cannot be settled elsewhere.

Field of membership issue is somewhat unique for credit unions and I want to touch on that at this point. This smarter technical capabilities and our desire to reach out, educate, and serve individuals how do not have an account, credit unions have a field of membership requirement that may limit the number of EFT recipients that credit unions might be able to serve. Under the Federal Credit Union Act, which covers approximately two-thirds of the credit unions in the U.S., a credit union may only provide services to members. An individual may not have an account at a credit union unless he or she is a member. There is an exception under the act for community development credit unions, low income credit unions, which may accept non-member deposits.

And the field of membership issue is particularly uncertain as a result of a pending Supreme Court case, NCUA, et.al. v. First National Bank and Trust Company, et.al. and we expect a decision not before December, and possibly into the second quarter of next year. This raises, for credit unions, an issue of membership. As a recipient institution under this program, would this recipient be a full member of the credit union entitled to all of the other services? The credit union, for example, would they be entitled to apply for loans? So, I think there's an issue here of how we can reach out and help serve those people.

We believe that the Treasury, working with the National Credit Union Administration board, should consider how to allow credit unions to serve these individuals. Because ETAs involve public funds and participating institutions would be agents of the Treasury, we believe the Department of Treasury has the authority to allow credit unions to offer such services to recipients outside of their fields of membership.

I'm going to turn, now, to a few concerns that CUNA has with the proposal. These are concerns raised by the payment system subcommittee which I am the chair.

The proposal does not provide details of the account designated financial agents who will provide for recipients who do not previously have an account, an ETA. Although questions the agency directs commentors to answer, provides some clues as to how Treasury plans to design the account. One of our major concerns is to assure consumers have a local access to their funds and based on the information accompanying the proposal regarding accounts for delivery of benefits, we are not certain Treasury shares this concern.

Under Treasury proposal, the agency will request bids from interested financial institutions to serve as designated financial agents. These agents will provide ETAs for recipients who do not have an account. We are -- We have strong reservation about this process.

While Treasury has indicated it wants to work with all types of financial institutions, too many questions are unresolved at this point regarding the EFT account and what will be expected of designated agents. Treasury must be encouraged to develop a full final regulation that will allow all types of financial institutions to participate as long as they have the capabilities to offer an account that meets the requirement of the Debt Collection Improvement Act.

Another concern, credit unions with their solid record of service for low income individuals, should be among institutions selected by Treasury for offering ETAs to consumers who do not have accounts. Treasury should make every effort to work with financial institutions, including credit unions, to sign these individuals up for direct deposit well in advance of the January 1999 statutory deadline.

The proposal includes -- indicates recipients should be required to access their accounts only through an ATM or POS debit card. This means individuals who have little or no experience with an account or an access device would not be able to withdraw funds in person at the institution or write checks. We question whether it's necessary to deny these individuals the opportunity to have access to their funds using methods other than through ATM or POS terminals.

We're also concerned that depending on how Treasury structures the program, pricing concerns for consumers will arise and point of sale, POS, use could be discouraged if undue financial burdens are placed on the recipients. CUNA urges the Treasury to fully consider the impact of its rule on POS.

The statute provides institutions offering ETAs to charge reasonable costs for these accounts. The Treasury provides little guidance on how reasonable costs should be determining, choosing, rather, to seek further input on this issue. Thus, the Treasury may move from a proposal which barely hints at its intentions regarding reasonable costs to a final regulation that is expected to explicitly address the issue.

The matter of reasonable cost is a critical one for institutions considering whether they want to big to participate in providing ETAs. Treasury's proposal should have provided more information on how it plans to determine reasonable costs, whether there will be regional differentiations, whether institutions will be allowed to determine for themselves what costs are reasonable, et cetera.

The Treasury questions whether the accounts should allow third party payments. CUNA does not think Treasury should require this feature although the -- of course, institutions would choose to provide it. The individuals receiving the EFT accounts have no financial institution service now, so it's questionable whether they would find this rather sophisticated capability useful. For purposes of EFT, we believe the statute does not require more than the basic account which allows withdrawals by the recipient.

The proposal would provide waivers for certain recipients and for paying agencies under specified conditions such as a hardship waiver. Some waivers are appropriate and it should not be necessary for consumers to present evidence that confirms their certification. Nonetheless, we question whether such a far reaching waiver provision that will allow many, if not all, consumers to retain check payments is consistent with the purpose of the Debt Collection Improvement Act.

The proposal does not provide waivers for vendor payments even though Treasury notes at fewer than 1,000 institutions are able to transmit tremendous data which will be passed on to the vendor into human readable form. We think Treasury should consider waivers for these payments as we question whether the problem of making this data readable will be satisfactorily addressed by January 1999. In addition, we do not believe Treasury should accept as designated financial agents for purposes of ETAs only institutions that are able to provide remittance data to vendors.

Because of the number of, and the significance, of the details that have been omitted from Treasury's proposal, we urge the agency to review the comments it receives on the current proposal and solicit comments on a revised proposed regulation which thoroughly addresses these key issues. These will include but not be limited to account structure, reasonable account costs, a frame work for delivery of benefits including capabilities of designated agents, whether institutions will be selected on a regional basis and the extent of each region, and duties of the designated agent including whether they would pay for replacement of cards.

In closing, thank you again for the opportunity to share these comments and concerns. CUNA looks forward to continuing to work with Treasury as it implements the statutory requirements to provide federal government benefits electronically.

Thank you.

MODERATOR LANE: Thank you and thank all our panelists this morning.

Now, perhaps some of the government representatives have questions of the panelists.

MR. HAMMOND: I think first, I'd just like to make one observation. Which is, that it is Treasury's intention to come out with a second -- I hesitate to use the word proposal because it won't be a regulatory process. But, in fact, the structure of the ETA account, how the competitive selection process will be conducted, as well as the terms, conditions, duties, responsibilities, and how access will be determined will be presented as a proposal in its own right for an additional 30 day comment period some time after the first of the year.

So, there will be an opportunity to actually look at the details of the ETA account and provide input before that process goes forward. And that will predate the final regulation itself.

MR. HOLLEN: And, Mr. Hammond, would that cover the area of fees, cost recovery?

MR. HAMMOND: Right.

MODERATOR LANE: Are there questions from the panel? Mr. Stout.

MR. STOUT: I'd like to follow up with -- to the whole panel but, it was prompted by some comments Mr. Hollen made. While Treasury has recognized right from the very beginning that there are going to be some recipients that remain unbanked on January 1 of 1999, it has been our intent, and in traveling around the country visiting many, many, many people, it has been our intent to try to encourage and to move as many of our unbanked recipients into the financial community before that date.

We've even shared our experiences and some of our programs, and encouraged, as Mr. Hollen mentioned, a project called Direct Deposit II which would be a voluntary account relationship kind of relationship that we try to and will continue to encourage. Frankly, if we ended up on January 1, 1999 with no one unbanked, that would be the best of all worlds.

I guess my question is related to that. What is it that the panel thinks we might do and what the credit unions might do, between now and January 1, 1999, to move the largest possible number of our recipients into the financial community on a voluntary basis with their own individual account relationships with that financial institution?

MR. HOLLEN: Well, actually, to save a little time, I did not cover that section. Now let me cover that to answer that question. It is in our written testimony.

One proposal we have is that Treasury could take important action to facilitate marketing with additional financial institution services who do -- to recipients who do not have an account. Treasury could make available to the National Credit Union Administration the names and addresses of all federal recipients who do not have an account. Credit unions is interested in offering membership and services to these individuals would contact NCUA, which would help the credit unions identify recipients who are within that credit union's field of membership. The credit union would then be able to market its services to such recipients, and if successful, become their financial institution.

We certainly would have no objection if Treasury provided those names to the banking agencies as well. The banks could market their services. This idea is fully consistent with Treasury's stated goal of having as many as recipients as possible who do not have an account designated financial institution before January 1, '99.

I think it's going to be very important to market and to communicate to these individuals, whether that is, from a privacy standpoint, is something Treasury has to do directly or whether you can allow institutions such as credit unions or banks to market to those individuals. Perhaps as a pass through but I think some heightened level similar to the initial introduction of the direct deposit program is going to be very necessary.

MR. STOUT: Thank you.

MODERATOR LANE: Ms. Bush.

MS. BUSH: I'd like to address that.

To build upon Stan's comments, the credit union system itself, which is a component of the financial arm that Jody addressed, the corporate credit union system with U.S. Central, as well as the leagues throughout the country, every state has a league office. Not ever state has enough credit unions to support its own corporate. That's why there are 37 corporate. They serve regional offices.

Over the years, we have built a very extensive network of consumer education. We have the ability to work very quickly with credit unions geographically to put on local educational chapters for consumers. In our opinion, it will take a broad based mass effort that is also localized, sitting down with individuals who have never had bank accounts before and explaining how it works. You need a local presence. Credit unions are well positioned to do that today.

MODERATOR LANE: Other panelists. Mr. Gray, would you like to comment?

MR. GRAY: What I can do is give you information on what my credit union has done specifically in this regard.

Since this was announced, we've put

together a packet for anyone that we saw with a government check and promoted the EFT program to them so that they might establish ACH deposit of that particular item. We've also done that through our newsletter and so forth.

But I would like to address, again, the names that would be very easy, if we could have copies of those to cross reference, then we would be made aware of others that might potentially -- that we might be able to serve potentially out of that group.

MODERATOR LANE: Ms. Beck?

MS. BECK: I'll just comment. As I mentioned in my testimony, we have always taken an active role in promoting EFT. And we would be happy to work with all of the leagues in the five states that we serve just to participate in promoting this both to the credit unions and then on to their members.

MR. HOLLEN: If I could follow up just -- I think this is also where the issue of the recipient being able to opt out of the program for a hardship. It's going to be -- they're aware of that and I think it's going to make it more difficult to communicate to the -- one of these individuals why they need to join and become -- have an account at a financial institution prior to January 1 of '99.

Many of these individuals probably are going to be very difficult to sell or to market to until they face not receiving their payment. They may not be motivated to open up an account.

MODERATOR LANE: We should note that we do plan to have a massive marketing public education campaign. We have contracted with a public relations advertising firm to work with us over the next couple of years to make sure that the message is received by every recipient. We will be asking financial institutions, consumer and community organizations, to work with us so that it can become a local effort as well as a national effort.

Other questions? Mr. Hammond.

MR. HAMMOND: I have a question for the panel. The issue as it deals with membership certainly was a consistent theme throughout the testimonies this morning. And, I just would like to clarify in my own mind your thinking as to how that applies in two separate situations.

The first is the type of voluntary accounts, the direct deposit II type of relationship which an institution is free to market itself, and whether or not the low income field of membership exception which exists today is something that would allow you to go out and do that type of outreach? And then, secondly, how the field of membership issue works in relationship to the ETA account which would be the Treasury fiscal agent type of relationship? And I don't know who would like to jump into that.

MR. HOLLEN: I'll start. I think we all have some comments on that.

This is going to be an important issue for credit unions. As you're probably aware, completely aware, we are unique financial institutions. We're not open to the public. However, as I indicated in my testimony, because this deals with public funds and we would be acting as agents of the Treasury, I think there may be a mechanism that allows the trade route working with the NCUA, the National Credit Union

Administration, to allow this kind of account relationship to exist as a public service. And that does -- and I think put a burden on the NCUA to try to determine is this, then, not really member of a credit union but rather a public funds kind of account or a non-member member in a sense. What is the status of that individual. Can they only receive the funds through the designated mechanisms.

The low income -- In addition, there are a number of credit unions now converting to community charters which allow serving a broader base of membership in a small geographic area, small city, a small county. But it certainly is an issue that we would encourage the Treasury to talk to the NCUA about because it is going to be a hinderance on credit unions in being able to help with this program.

MODERATOR LANE: Ms. Bush.

MS. BUSH: In concurrence, yes. The very folks that we were talking about this morning, the 10 million Americans that are unbanked, may be the very ones who would benefit from the other services that credit unions, and other financial institutions, offer. We see the field of membership issue a restriction. We do believe -- I agree with Stan, we believe that the Treasury has the ability to allow credit unions to be fiscal agents working with NCUA. Howedver, we'd like to take it a step farther.

If we can improve the financial well being of the people, that is the purpose of credit unions. And in doing so, we can only give these types of services to members, what we would like to do is extend that fiscal benefit that we're talking of here this morning to a full membership so that every person walking into a credit union has the opportunity to choose which services they want to use. And that's what is at the base of our comments.

MR. HOLLEN: Let me add a little bit to that, if I could. I think it's important for Treasury to keep in mind, and perhaps you have done this, focus on the social demographics of who the 11 million people are. And, there are reasons why they don't have a financial institution account. Various reasons. Some cases they may have been -- had that privilege taking away for abuse. In other cases, they simply don't trust institutions. In other cases they just much rather receive a paper check and go in and cash it wherever that's at.

And, I think that's got to be recognized in the marketing. Many of these people who live from check to check, they have no workable funds. They have no savings to live off of. And, it's very, very important for them to avoid or not pay fees to the extent possible. I think that certainly fees have to be there for cost recovery. But beyond that, that is a unique role credit unions could play because we do not charge the kinds of fees typically found in the banking industry.

MODERATOR LANE: Other questions from the panel?

MR. HAMMOND: I had one additional question related to the shared branch networks. And in particular, you could elaborate just how extensive that may be, both as far as the number of institutions participating or the number of branches involved? And I realize that may not be information you have readily available, and if not, if you --

MR. HOLLEN: Well, I could start. Maritta, I know, has some information. There is a national switch. There are approximately, say, about 23 or so leagues or states involved with this. There's an extensive system in California. There are links of these systems that together represent -- in California, we have about 250 locations, branches, that are networked. I think that's -- by year end we'll have 250.

Nationwide, it's -- I'm not quite sure of that number. I would estimate it's probably in the area of about 1,000 but I'm not sure. There is a mechanism for this switch to occur and it's been up and running. I think the reason, and I want to emphasize, again, the difference between credit unions and banks. We cooperate with each other a great deal. And we are able to build this kind of a system without too much fear of competition between institutions. And so, credit unions have always been able to come together and build switches or a mechanism. And this is a very unique system and provides a first -- face-to-face contact with a teller for people who just absolutely won't use ATMs.

MODERATOR LANE: Ms. Bush?

MS. BUSH: There are three types of service center networks throughout the country. Three basic ones. Four of them have links like Stan said, so a credit union can join one network and, much like an ATM network, have access to the other facilities. There are close to 1,000 outlets or financial institutions where a credit union member can walk into and be served just as if they were in the office of their own credit union. The receipt has their credit union name. Their monthly statement has the location of where they did business. Very similar to an ATM environment.

The difference is they're talking to a human being. It goes across state lines. The intention is to bering in the third service center network into a common switch. This is all done electronically. And it's through a cooperative effort.

Like Stan said, there are 23 states currently participating. We're looking at close to

1999 when the third service center environment comes into conjunction with these.

MODERATOR LANE: I have a question for Ms. Bush.

In your testimony, you talk about non-financial service providers and you suggested that Treasury's oversight might be extended to these providers. Could you clarify what role you were thinking non-financial service providers could provide?

MS. BUSH: In reading some of the previous comments, some of the previous proposals, a couple things have popped out. We've seen the Postal Service being suggested as place where recipients could go in and pick up some type of a payment. We've seen check cashers, and this is where we came across the point. Perhaps it's not -- this should not be limited to just financial institutions. Perhaps non-financial institutions have a role to play. But that's providing that there are regulations to ensure the integrity of the payment system.

Financial institutions, whether they're

banks or credit unions, or mutual savings, have had to undergo regulatory annual oversight to make sure that -- to ensure the safety and soundness for the American consumer. And what we're asking the Treasury to do, if not financial institutions are to be considered, to make sure that the same type of safety and soundness procedures are followed by all payment -- authorized payment agents.

MODERATOR LANE: Any questions?

MR. HAMMOND: I just had one last question. There was, I think, Ms. Beck commented in your testimony that credit unions already own a fairly extensive ATM network and I was curious what ATM network that is?

MS. BECK: I was referring to the one in California, the Credit Union Co-op.

MR. HAMMOND: Thank you.

MR. HOLLEN: That is the name of it and it has about 14 ATMs statewide throughout California.

MODERATOR LANE: Thank you very much, panelists on the first panel.

We will take a ten minute break now and

reconvene at 10:30.

Thank you.

(Whereupon, the foregoing matter went off the record at 10:20 a.m. and back on the record at 10:30 a.m.)

MODERATOR LANE: The second panel has five panelists and we will go through them in order. And then as we had with the first panel, questions from the government panel to the witnesses.

The second panel, Fee Cogburn is the VOTE regional coordinator for the American Association of Retired Persons, or AARP. Ernest Brown, Chairman, Housing Committee of Texas Acorn. Elena Cortez, the executive director of Voice for Senior Citizens. Roger Gette, Legal Services of North Texas. Stan Paur, President, Pulse EFT Association.

Ms. Cogburn, we would start with you, please.

MS. COGBURN: Good morning, Mr. Chairman, Mr. Stout, and Ms. Lane, guest panelists, and members of the audience. Thank you on behalf of the American Association of Retired Persons, AARP. My name is Mrs.

Fee Cogburn and I'm a volunteer, Texas AARP, VOTE Associate State Partners. I shall present our views regarding the U.S. Department of Treasury's proposed regulations to implement EFT 99.

Today, we want to comment on the institutions that are to participate in EFT 99 because they will directly affect the availability and accessibility of financial services.

The eligibility of financial institutions to receive EFT payments on behalf of recipients is one of a number of several critical topics effecting the implementation of EFT 99. As a mandate of the Debit Collection Improvement Act of 1996, EFT 99 requires that recipients of all federal payments receive their payment by electronic funds transfer, EFT, by January 1st, 1999, unless unbanked or granted a hardship waiver.

AARP has a major interest in this mandate because it disproportionately effects older persons. The availability of banking services involves complex issues, not just the location of a point of access but also consumer protections, financial security, safety, and reasonable service fees. While AARP recognizes the value of EFT as a consumer choice, that it can enhance banking convenience and safety, the Association did not favor mandating EFT for all recipients of federal payment because it could impose undue hardships on many.

Nonetheless, EFT is now the law. AARP strongly urges that final regulations be crafted so as to protect recipients from paying excessive fees and charges to obtain their benefits. Areas where financial services alternatives or benefit are non-existent such as rural and inner city communities, are most vulnerable to hardships caused by electronic transfer.

AARP believes that the federal government has an important role to play in assuring access to all electronic funds, but especially mandated federal payments such as Social Security and other retirement benefits. AARP recommendations are as follows. Fees and service changes associated with accessing EFT payments should be restricted to a reasonable level. Entities such as check cashing and pawn shops should not be allowed to receive this payment or serve as either a mandated or sole source of access for recipients.

A minimum banking service account with consumer protection should be established and made available by all depository financial institutions. A number of financial institutions now offer free or low cost accounts that could provide less costly alternatives for check cashing services currently used by many recipients. Appropriate rules should be incorporated to govern authorized payment agents. Plug any existing loopholes in current regulatory practices. Assure oversight of improper fees imposed on recipient's payment. And establish a consistency or equity across federal agencies in making such designations.

Finally, the soundness of federally sanctioned institution of a system must be assured. Payment recipient lose if unsound participants go bankrupt or cannot meet their financial obligations to the recipient. This is particularly true if services provided by institutions outside the traditional banking industry that are relatively not regulated such as check cashing outlets.

In conclusion, although electronic funds transfers offer significant benefits for consumers and the federal government, consumer protections need to be in place well before the January 1st, 1999 and 2000 deadline. This is particularly important for the unbanked. AARP stands ready to work with you in this critical endeavor.

I appreciate your hearing me today. Thank you.

MODERATOR LANE: Thank you, Ms. Cogburn.

Mr. Brown.

MR. BROWN: Thank you. We want to thank the Department of Treasury for inviting us to have our input into this hearing today.

My name is Ernest Brown. My family and I, along with 3,500 other low and moderate income, multi-minority families are members of Dallas ACORN, like the other 100,000 member families of ACORN nationally. We have come together to make our neighborhoods better by, among other things, making government and business more responsive to our neighborhood. In that spirit, I am here to speak on behalf of ACORN members to urge you to adopt policies regarding electronic fund transfer that would benefit us and families like us.

We strongly believe that EFT can be a bridge between our community and the financial mainstream. This bridge needs to be built. It is no secret that our neighborhoods don't have the credit they need to survive, credit which they deserve. One of the major reasons why credit opportunities are absent from our neighborhood is because the institution which provides credit, banks, are not in our neighborhood. Banks aren't here and they don't see us, and they don't know us.

But EFT changes that. Right now, the U.S. Department of Treasury figures that there are 10 million people who receive a federal benefit check but don't have bank accounts. In order to get hundreds of millions of dollars in savings, Treasury is making these 10 million people get accounts so that it can send government benefits electronically which is much cheaper than paper checks.

Banks and others will not let this huge profit, new market easily pass them by. Unfortunately, the way to get payments electronically that are out there now and are possible in the future doing -- bring unbanked families into the financial mainstream.

Aptly, the proposed rules don't let those people have any leverage to challenge banks to give a better service. Unless proposed EFT regulation is better designed, a golden opportunity to overcome economic disenfranchisement without an extra government expense will be lost, and EFT will fail to bring our families into the financial mainstream.

Right now, many unbanked families have to cash that benefit check and pay bills without a bank account. This forces them to other outfits such as check cashers and so forth. Unfortunately, these businesses do not provide any useful service beyond cashing their checks or providing money orders to pay bills. Also unfortunate is the relationship the family has with a check casher does not lead to better things like building savings or getting a loan with a relationship with a bank can do.

So, you see, the two tier banking system in our country only keeps poor families out of the mainstream. To bring families into the mainstream, Treasury will have to do three things. First, it has to keep check cashers from stealing customers. Second, it has to make sure that banks reach out to benefit recipients and treat them like real customers. Third, it must stop its public education campaign until it develops a better EFT plan and until it includes community groups in the education effort.

Treasury's EFT plan doesn't do either of these things. Treasury plans four ways for a family to react to this law. First, it expects people who already have a bank account to tell the government to electronically deposit that check into my account. The second way it expects people to react to this law is that they will go out and get an account that the government can electronically deposit checks into. The third way is that Treasury will set up accounts called electronic transfer accounts on behalf of federal benefit recipients at banks so that that check can be deposited and accessed there. The final purpose is that Treasury, in a small number of cases, will let people waive out EFT and continue to receive a paper check. None of these four ways, as planned, is good enough.

The first method assumes that the family with a bank account and therefore it's not helping to bring unbanked into the financial mainstream.

The second method, unbanked families go out and get an account, doesn't help unbanked families, either. The first reason, it doesn't help EFT live up to its potential and is because families are unbanked for a reason. Some families simply don't want a banking relationship. Most people, however, are real obstacles keeping them from having this relationship.

The first barrier is cost. Monthly fees, hold on funds, withdrawal fees, and balance check fees, all combine to deny people access to their money which they need and all but need now.

ACORN did a survey of Dallas' largest banks and only three did not charge a monthly fee.

One of those banks charges a fee for every check written.

Another barrier is geography. Often our neighborhoods just don't have bank branches nearby with convenient hours. What happens when a bank don't cater to our community is many of my neighbors and friends have to go to check cashers and pay exorbitant rates to cash checks and buy money orders. They are paying first class prices for back of the bus service.

Despite this terrible situation, Treasury planned on letting check cashers and bank to set up accounts, any type of account, so long as they receive our electronic money and save the government money. People told by the government to get accounts would have to pay both bank and pay cashiers to get less than full banking relationships. Treasury is throwing us to the wolves.

Instead, if Treasury would throw us to the wolves, it ought to tame them first. Banks have always taken advantage of our depuration for their services. Since people are only getting accounts because Treasury says so, Treasury has an obligation to make sure these accounts don't hurt people. Treasury also has the power to make sure these accounts don't hurt people.

The law clearly states that Treasury must ensure that individuals required to have an account at a financial institution have access to such an account at a reasonable cost, and are given the same customer -- consumer protection as other account holders. Treasury should use its obligation and power to require banks, not check cashers, to prepare dignified, adequate, and affordable service to families that don't have bank accounts.

The third method, setting up ETAs at a bank, is also inadequate. Treasury doesn't even have a plan now, but as it develops a plan, and even while it develops regulations for accounts at banks set up for people under the second method, it must keep in mind the lives of the regular people. Everybody has to make some withdrawals to pay necessary bills, like rent, utilities, food, and clothes. Some of these payments are, by necessity, paper transactions. Everybody will some time have to save money for large purchases. They can't afford with one monthly benefit check such as a down payment on a car or for emergencies, or to cover moving expenses and rental deposits, or even for down payments on a home.

Everybody deserves the right to talk to a person about their money. They need the ability to make withdrawals, to pay for recurring necessary expenses, to save for one time and emergency expenses, and to get personal help figuring things out. There may even be other financial services that can be part of the account structure that are similarly necessary. Treasury is the procurer of ETA and can make -- and must negotiate an affordable price for an account that serves all of the needs on behalf of federal benefit recipients.

The final way Treasury will allow people to respond to this law is to ask for a waiver from the law. But Treasury does not plan to let everybody who needs waivers the right to have them. Some people can waive EFT if a bank account is too expensive or if a bank is too far, or if they are disabled. But nobody can waive for these reasons if they already have a bank account when EFT goes into effect.

I have a bank account that I can directly deposit my Social Security and pension check into right now. But, the future may bring circumstances and situations that change the usefulness of that account to me and my wife. I should be able to get rid of it without moving my Social Security benefit.

Other people who may have trouble using electronic accounts because of language, mental disability, poor literacy for instance, should also be able to waive EFT without losing their benefits. These are vulnerable and needy people. The government should not turn their backs on them just to save the 40 cents a check they would get.

The waiver of rights must be expanded to all these people and it should not matter when these circumstances arrive that the waiver right ought to apply.

This is Treasury's plan and its flaws. What we have given you are suggestions. You must stop the Treasury public education campaign that is bubbling at other agencies right now until it better develops it's unfinished and fully designed. Once the plan if fixed, you have got to include ACORN and other community groups in the public education campaign so that the public will be certain to know that they have a tool for a financial future.

I want to thank you for allowing me this opportunity to give you my opinion, our opinion, of this. Thank you.

MODERATOR LANE: Thank you, Mr. Brown.

Ms. Cortez.

MS. CORTEZ: Good morning. I am inexperienced in this and I am drawing from my own personal experiences and from my work with senior citizens through levels that I've found here in the Dallas.

I have some concerns and it revolves into a number of people that I'm aware of that receive Social Security or supplemental security income, or veterans benefit checks. And, there are several questions that I will try and bring some background on.

One of the primary ones is what is the

situation, how is it being addressed for the lack of literacy? How can you request of waiver? Who or where is the determination made on the waiver? What's the time frame? What's the definition of physical disability, geographic barrier, financial hardship? Where will ATMs or point of sale terminals, be located? How does it make it easier to pay the rent, medicines, insurance, et cetera? What impact can usage fees, service fees, access charges, et cetera, have on the total amount received, and will they be mandated fees limits?

From personal observation because I have a 72 year old mother and I work with a lot of seniors, the electronic funds transfer causes them some problems. Many elderly hispanics do not have checking accounts at a bank, credit union, or savings and loan institution because they cannot read or write in English, or at times even in Spanish. In prior discussions with banking personnel, there is limited or no customer training on writing checks. If they're only literate in Spanish, the check cannot be processed except if entries are in Spanish.

Many of the elderly hispanics received low salaries in their younger working days and have no experience with banks. They follow in the footsteps of their parents by paying cash on a face-to-face basis. That meant that -- confirms to them that payment has been made when they see the teller stamp the page. As an example, when I worked in San Antonio for the telephone company, we had a -- the main payment location there. And from your own experiences, you always receive your telephone bill with an envelope so that you can remit your payment. It never failed to see so many elderly persons come there, walk there, no matter what the weather, to come and give the money to the teller so that they could stamp it. They closed that office. For months, for years, you still had them come to try and make their payment in person like they expected it to open back up.

The older hispanics I see regularly depend on their check received from SSA/SSI as their only source for living expenses, which means they do not have enough left over to keep a minimum balance to eliminate service fees. Service fees range from $0.00 at very limited locations to $3.50 or higher per month if you research and question the account options available for senior citizens.

Many times the brochures and other written material is in small print and in English which makes it difficult to understand. From observation, I see elderly hispanics hesitant to ask questions and will pay a higher fee. When the average SSA/SSI check is under $500.00 every dollar needs to be stretched and fees have an impact. Because they may depend on others to help them write checks, you don't know when temptation will make the amount larger by tampering with a check.

Within the last six months, I received -- I reviewed the bank statements and cancelled checks of an elderly hispanic male and found that a person he knows had written a check for $20.00 for him. Afterwards, it was altered and cashed for $220.00. The elderly gentleman finds it hard to pressure anyone and is a soft touch. But I know his regular check is only $421.00 a month for him to live on.

In the areas of Northwest Oak Cliff and west Dallas, there are scarce bank branches which can make a visit to a bank a challenge. Bus service requires one or more transfers. A number of senior citizens have physical challenges and require use of public transportation. There's a fee for each segment of the trip to use the Handy Ride system and they have to schedule that days in advance.

Here's where my mother's experience kind of draw into it. Using automated teller machines, or point of sale terminals, can bring its own trials. Security issues like writing down the PIN number on the card or carrying it in their wallets can ease -- can invite ease of theft. Physical impairments can cause their reaction time to exceed processing time on ATM's time out features. Request from help from strangers can endanger the elderly.

When they cannot read and write, the use of ATM and POS terminals are not possible because they have to read the instructions to proceed to the next action sequence. Their landlord and many businesses will not be likely to have the appropriate terminals to handle the transactions. The charges, the fee charges, when using ATMs vary greatly. These charges can impact the total amount in the course of a month's transactions.

And, personal experience in the last couple of weeks from myself, I did not go to my regular bank ATM and used another bank's ATM. And I was charged $1.50 for using theirs plus $1.00 because I was outside of my bank's network. That's $2.50. That's one transaction. I may be able to afford it but an elderly person would not. In grocery stores, in other stand alone ATMs, also charge fees.

Though I know what a cost savings the electronic transfer of funds will generate and I recommend the security benefits of -- on it, I have to bring my concerns forward for the elderly hispanics that have difficulty in reacting to technological changes and have challenges of language and literacy. The waiver availability needs to be identified and promoted.

The public education campaign plan will need to be comprehensive in delivery method. From my experience, the extensive use of broadcast media, radio, and television to spread the word will be the best outreach method for elderly hispanics throughout the country.

Another outreach method is person-to-person through senior centers, churches, senior housing residences, and partnerships with community organizations. Cooperation with banks and grocery community stores to have large print material and hands-on demonstration of ATM POS terminals is critical.

I just have those concerns about how our senior citizens are going to react to it. They have not had the experience with banks, or with ATMs, and so there's going to be a lot of problems.

MODERATOR LANE: Thank you, Ms. Cortez.

Mr. Gette.

MR. GETTE: I'm pleased to be here today to provide some insight on how Treasury proposed implementation of EFT 99 will impact upon my low income clients. My name is Roger Gette. I've been an attorney with Legal Services of North Texas for over 18 years.

Our clients are exclusively indigent, often uneducated, often illiterate, often not fluent in English. Those of my clients who are recipients of federal payments generally receive Social Security or SSI, and I note today in the fiscal '97 information that was provided in the packet toady that only about 32 percent of SSI recipients in this fiscal year are--receive their checks through EFT.

Most of these recipients do not have bank accounts, yet they are careful and cautious with their limited funds. To put it succinctly, Treasury's proposed regulations without some significant changes will lead to serious harm to low income recipients of federal benefits in north Texas. I have several specific concerns, each of which I will elaborate on further.

First of all, insufficient regulation. Treasury must regulate all accounts established for the purpose of complying with the federal law. Access must be required through financial institutions. Fees must be limited to those which are reasonable. And consumer protections must apply.

On waiver, Treasury has omitted far too many criteria for hardship waivers. The most serious problem is the limitation of the financial hardship waiver to recipients who do not have a bank account. This limitation will prohibit recipients who have established accounts, which they subsequently find are too expensive, from using the hardship waiver. Additionally, hardship waiver should be available to recipients with mental disabilities, educational or literacy barriers, and English fluency barriers.

Protections against attachment and set up must apply. Many low income people do not have bank accounts because they're afraid of losing their sparse funds to the claims of creditors. One of the easiest ways to facilitate access into mainstream banking would be to clarify that attachment of federal funds will not occur in the voluntary accounts or the ETA established to comply with EFT 99.

Public education campaign must stop. If Treasury's public education campaign proceeds under the current regulatory structure, incomplete and misleading information will be provided to the unbanked recipients of federal payments.

Inadequate regulation. All accounts established for the purpose of complying with EFT 99 should be regulated. Treasury must regulate the type of institution who should be permitted to be conduits of federal funds. Only financial institutions, banks, credit unions, and savings associations, should be permitted to be conduits for federal monies. This would mean that partnering between a check casher and a bank would not be permitted.

Instead, Treasury's regulations prohibit federal payments deposited by Treasury into recipients accounts at financial institutions that are effectively accessible only through fringe bankers. The recipient should always be able to access federal payment in his or her neighborhood through ATMs or POS devices made available through financial institutions.

The law does not differentiate between voluntary accounts and those established by the Treasury. The law specifically requires that these protections apply to everyone required to have an account at a financial institution. By its terms, this excludes all those who would otherwise have an account, a standard checking or savings account. However, the words of the statutory mandate also dictate that everyone who establishes an account just to comply with the federal law will have an account which is protected by the statute.

It is essential that Treasury requires, at the least, that, one, federal beneficiaries be able to access their federal money through the financial institutions. Two, the fees charged for these accounts be reasonable in relation to the federal payments. And three, consumer protections apply to the transaction from the point the federal payment is deposited into the account until the recipient withdraws the funds. The specifics of these requirements, as well as their enforcement, can be provided by the regulatory agencies whose role it is to supervise the financial institutions.

Basically, Treasury has proposed to allow waivers only to the following. Recipients who have been receiving payments since before July 26th, 1996, the day of the new law, and who have a bank account, are eligible for a waiver if the requirement for electronic deposit of their benefits would cause a hardship due to a physical disability or a geographic barrier. Or, two, all recipients without bank accounts for whom the electronic deposit would impose a hardship due to a physical disability or geographic barrier, or would impose a financial hardship. These are the unbanked, and they will also have a temporary waiver a few years until Treasury develops the whole system.

Many more need waivers. The effect of this stingy set of waiver standards would be to leave out a lot of people who would be eligible -- who should be eligible to continue receiving a paper check, including, one, all those recipients who did not have bank accounts yet signed up for one in response to Treasury's urgings and now find that they cannot afford the fees charged.

Two, recipients who have mental disabilities. Treasury's assumption that waivers should not be required for persons with a mental disability because those who have a mental disaBility makes them incapable of managing their own funds and they have a representative payee appointed for them by the applicable government agency is wrong. There are a very large number of recipients with mental impairments who are quite capable of managing their own funds in a check based system and who, absent a transition to electronic delivery system, could function independently without the need of turning their finances over to a representative payee. Some of these recipients may simply be unable to remember a PIN. Others may have a limited ability to think conceptually. And while they can count out money to make purchases or even write checks to pay bills, cannot deal with abstract benefits that they can neither see nor feel.

Recipients who have literacy or educational problems such that use of electronic machines would be difficult or are not fluent in English. Treasury's statement that these factors do not pose any barriers unique to an EFT delivery system as opposed to a check system is not true. It does not take an ability to read or write to sign a check with an X, or an ability to read English to sign your name on the back of a check.

It does, on the other hand, require an ability to read English or one of the other limited languages that may be available on a POS or ATM screen, to negotiate an electronic debit of funds. And it those who are not literate and fluent in English that are most likely to end up with the electronic debit only account because they will not otherwise have a relationship with a bank, and therefore will not be able to avail themselves of teller assistance when they cannot negotiate the ATM.

The EFT account should be available to all. A great deal of attention has been paid to the development of accounts the Treasury will establish for all those unbanked recipients who failed to establish their own account, yet do not qualify for a waiver. The ETA accounts. Treasury has proposed closely regulating these accounts to ensure real access, reasonable costs, and application of consumer protection. Yet, there is a trick.

If a recipient already has an account, Treasury's account is not available, even if the recipient could establish that the nature of the accounts or the fees charged for it have changed substantially since it was originally set up. This is wrong. The ETA account should be available to all federal recipients who apply for it.

The reason many low income recipients do not have bank accounts, among -- other than those expressed already today, is fear of losing their limited funds to judgment creditors. Low income, elderly, and disabled persons are particularly vulnerable because of the inability to pay all of their doctor or hospital bills. They deliberately avoid keeping their money in bank accounts to ensure that the bank does not allow their funds to be attached by creditors. Treasury could go a considerable distance to convincing many recipients of federal payments to feel comfortable in doing business with a bank or other financial institution if they would assure recipients that these funds would be safe from the claims of creditors. Although many federal payments are protected by law from attachment and the claims of judgment creditors, banks routinely fail to abide by these restrictions.

However, the only remedy that a recipient has if there has been a wrongful attachment is to sue the financial institution. This does little good for the recipient who is living month to month and is in dire need of funds that were wrongfully attached. As a result, cautious recipients simply do not allow their funds to be kept in a bank account. Treasury's regulations should flatly prohibit the attachment or garnishment of any funds in an account into which the covered federal funds have been deposited.

To be fair, the public education campaign must provide information that the U.S. Government will make available the ETA account which will be low cost accounts at banks to those who are otherwise unbanked. And that if electronic banking causes either a financial or other recognized hardship, recipients will be allowed to continue to receive their paper checks.

It is folly for Treasury to assume that

low income recipients will close an account to which their federal payments are made, even if the account is too expensive or otherwise has abusive terms just for the purpose of qualifying for a waiver or an ETA account. That's a cumbersome and complex process for any of us, let alone those who are not comfortable with mainstream financial institutions.

It is essential that Treasury allow the financial hardship waiver as well as the ETA account to anyone who claims to be in need of either and that the public education campaign inform recipients of these rights. Despite Congress' instruction to Treasury to ensure that individuals required to have an account at a financial institution have access to such an account at a reasonable cost and are given the same consumer protections as other account holders, Treasury has failed to specify even minimum standards for the voluntary accounts opened by recipients to comply with the law.

In summary, Treasury must regulate all accounts established for the purpose of complying with federal law. Access must be required to financial institutions. Fees must be limited to those which are reasonable. And consumer protection must apply. The limitation of the financial hardship waiver to recipients who do not have a bank account will prevent recipients who have an established account from obtaining a waiver if they subsequently find that these accounts are too expensive to maintain.

Additionally, hardship waivers should be available to recipients with mental disabilities, educational or literacy barriers, and English fluency barriers. The ETA account should be available to all who apply for it. Treasury's regulations should flatly prohibit the attachment or garnishment of any funds in an account into which the covered federal funds have been deposited. And finally, the public education campaign shut away wait until these matters are resolved.

Thank you very much.

MODERATOR LANE: Thank you, Mr. Gette.

Mr. Paur.

MR. PAUR: Good morning and thank you for permitting me to provide my comments on EFT 99.

By way of introduction, I have the privilege of serving as president and CEO of the Pulse EFT Association headquartered in Houston, Texas. Pulse is a not for profit cooperation that was established in 1981 to serve the financial industry and its customers in the south and southwestern United States. Our program operates a shared EFT network that in 1997 will process approximately 250 million ATM and point of sale transactions. Pulse does not own or operate any ATM or POS terminals but serves as a central clearinghouse and settlement point for electronic banking transactions.

Besides providing the shared regional EFT for the south and southwestern United States, Pulse serves as a source of information and education on EFT issues to nearly 2,000 banks, savings institutions, and credit unions that are members of our association.

Pulse has had considerable experience involving processing government payments electronically. In 1989, Pulse implemented and managed an EBT pilot program in Houston for Social Security and SSI recipients. For the past several years, our network has served as a conduit for EBT transactions as part of the Citicorp EBT project. Most recently, Pulse has worked with EBT contractors to provide ATM and point of sale access to recipients in Colorado, Oklahoma, Connecticut, and Louisiana.

The board of directors of Pulse which sets the direction for our program, has, since the late '80s, been supportive of federal and state EBT initiatives. Our board representatives from super regional banks, savings institutions, and credit unions, are in agreement that the ATMs and merchant POS connections combined with the efficient and reliable network infrastructure represents a cost effective and efficient delivery channel for government payments.

We believe that EFT 99 offers the Government yet another opportunity to take advantage of the base of terminals and local network infrastructure. However, in our view, in order for EFT 99 to accomplish its desired objective, it is absolutely vital, absolutely vital, that an economic model be created that serves as an incentive for ATM operators, service providers, and networks to participate.

In the State of Texas, significant progress towards the elimination of paper based food stamps has been achieved through the Lone Star EBT program. Regrettably, the state has never been able to expand its EBT effort to include the use of ATMs because of an inability to reach an agreement with ATM operators on adequate compensation for the use of their devices. Despite several years of discussion, it seems unlikely that ATMs in this state will ever participate in the Lone Star program without the payment of a standard interchange rate or the ability to levy optional convenience fees.

The absence of the state's nearly 12,000 ATMs is most unfortunately since without these devices the full potential of providing convenience to recipients will never fully be realized.

On behalf of the Pulse EFT Association, I would urge Treasury, and other agencies charged with formulating EFT 99, to consider that an ATM operator, regardless of whether its serving its own customer, another institution's customer, or a government client, is faced with the same expenses and liabilities in providing the service regardless of the end user. To compel ATM operators to serve government card holders for less than standard industry rates is illogical and certainly unfair.

It is unclear based on our review of the documentation available to date whether Treasury has reached any conclusions on the reimbursement to ATM operators and networks. We sincerely hope you will carefully consider the critical role of these parties play -- they will play in the ultimate success of EFT 99. Pulse would look forward to working with you and other government agencies in fostering a better understanding of this issue.

Thank you very much for your time.

MODERATOR LANE: Thank you, Mr. Paur.

Now, we go to the question section of this panel.

Mr. Hammond or Mr. Stout, do you have questions?

MR. HAMMOND: The first question I have,

and I guess it's probably directed to the panel at large, but particular, perhaps Mr. Brown and Ms. Cortez could help me a little bit with this one. Which is -- goes to the nature of a waiver for those who might already have bank accounts.

I think it was mentioned in a couple of the testimonies that there should be some sort waiver provision for someone who is already banked and looking for, I think particularly with regard to financial hardship. And I'd like to get a little bit more reasoning behind the financial hardship for somebody that might already have a banking relationship.

MODERATOR LANE: Ms. Cortez.

MS. CORTEZ: The fees, when we -- and I can remember this in recent --in the last two years. But, in talking to the different banks and asking for the different fees, if you count the number of transactions you do, the number of deposits, I mean, it seems like there's a fee for every action, whether it's bringing in money or taking money out. So, there might be a problem there.

I'm more interested -- more involved in the part where you're non-banking at all. But, there are a number of fees and it kind of throws them into a different category and there would be some additional fees.

MR. BROWN: That's basically what --

MODERATOR LANE: Mr. Brown?

MR. BROWN: That's basically what I think, too, because you take a person who may be getting $400.00 a month check and there's fees. He can -- he don't have enough balance to avoid fees so he gets -- he or she gets that check and it's all going to be feed up, let's put it that way.

MODERATOR LANE: Mr. Stout.

MR. STOUT: We have focused a lot on the unbanked community and certainly as we should. But I would like to extend that question a little bit that Don was talking about.

We have -- at least, and maybe more, constituents who already have a relationship with a financial institution but still continue to receive a check. What do you think are the issues and things that we could do between now and 1999 to encourage those individuals, who already have an account relationship but continue to get the check, even take it to the financial institution at which they have the account and deposit it, to use direct deposit which is already available to them?

MODERATOR LANE: Ms. Cortez.

MS. CORTEZ: There are -- I know I've had some experience of having changed the client's mind to go to having electronic banking transfer. It's such a tangible. They are so used to having something that they can translate into cash money, and they make their decision as to whether they're going to leave it in the bank or they're going to take it off with them. And that is a very hard mind set to change.

The instance that it brings to mind is, he does a lot of traveling and so he sees the opportunity there that he doesn't have to be in town to make sure that it's there and reaDy to be used. But, he's an exception, that he travels.

But most of them that I see, and it would be -- I guess something with your marketing firm and how to present it that that is actually going to be done. They don't see that. There is no tangible way for them to see that, yes, you're punching that computer button is going to transfer it to this bank and say I got it. They have to see it and they want to make their own decisions.

MODERATOR LANE: Ms. Cogburn.

MS. COGBURN: One of the groups that will suffer most under this is are the SSI recipients. As you know, we're talking, when we're talking about all these people, a lot of them only get four something, five, six hundred dollars a month. Only 11 percent of SSI recipients have their -- use EFT although about -- and 58 percent of them do not have a bank account. And a lot of this group are non-speaking -- non-English speaking people and it's very difficult for them to handle anything.

And, getting to what she said, I know a lot of people -- 67 percent of Social Security people use EFT. But you know, it's a much higher group that has bank accounts than the 67 percent. I don't have the figure. But, they actually -- You ask them why.

They like to handle that. They like to see it. They want it in their hands. They like to go to the bank and deposit it. It gives them this good feeling. So, they're the hard sell.

MODERATOR LANE: I'd like to ask Mr. Brown and Mr. Gette about the statement that we should stop the public education campaign until we know more about what we're doing -- those weren't your exact words. I wonder if you could clarify what you mean because I don't really think the public education has started yet. We have just engaged this contractor and their plan is due to us next month. And we will be involving community and consumer organizations as well as financial institutions to help us once we have this plan.

So, I wonder if you might talk a bit about what you mean by that statement?

MR. BROWN: Basically, what information I've had is basically speculation and that's misinformation. In fact, everybody has an understanding that you're going to get any type of federal check, it's going to have to be deposited in a bank, or deposited in some type of financial institution. It could be a check cashing place or it could be any type of financial institution.

So, until we can -- until Treasury can really give some definite information on how that electronic transfer is going to happen, then it's just kind of hard to understand what you're actually talking about.

Now, an organization like ACORN, we can work in a community and we have magnet organization here in Dallas. And we meet on a monthly basis. And I believe that Treasury could work with organizations like ours so that they could get a clarification of us and we can pass that information on over to them and try to distinguish some type of trust to that community. Then, I think, the job will be well done. But as it is now, it's a lot of speculation. That's what I call misinformation.

MODERATOR LANE: Mr. Gette.

MR. GETTE: Yes, once this public education campaign is started, it would be very difficult to change the specifics in what is being spread out all over the country. And so, my point was, that until there's some harder look at who should be eligible for the ETA accounts and what the waiver structure should be, who should be eligible for that, and whether or not people who were banked can close that account and become eligible for the ETA account, until some of those issues and questions are resolved in the regulations, it was my position that we should not go forward with a public education campaign and then perhaps have to come back with some new and different information for consumers.

MODERATOR LANE: Thank you.

MS. COGBURN: Yes, I would like to address that.

We have 37 million -- 32 million to 37 million AARP people in the United States. Texas, alone, has 1 million and 8. 1.8 million. We are anxious and ready to start with an educational program. I'm in the VOTE and that is the education arm. But, we want facts when we start. We're waiting for the regulations to start our campaign because we can't go out to these organizations and undo what we've told them. But we are anxious to help and start with it.

MODERATOR LANE: Ms. Cortez.

MS. CORTEZ: The thing I do want to just add to their -- Since the Treasury has not put out any information, other departments have and so it gives the impression that it's you either do it or you do it.

And, one thing, too, that does not make any comment to the waiver. So, they're not given that option at that point. So, that is a point that you need to be aware of. You may not have the information out but the information is out.

MODERATOR LANE: Thank you.

Other questions?

Mr. Hammond.

MR. HAMMOND: I wanted to follow up on a question and I think it came up -- it came up in a couple of testimony but in particular Mr. Gette's testimony. In talking about the difference in operating if you're illiterate in a check versus an EFT world. And I guess I'd like to pursue a little bit more how the transition would be made more difficult by moving to electronics, if I'm illiterate today, how I operate in that environment in the check cashing type of mode. And by all means, Mr. Gette, you or anyone else on the panel.

MR. GETTE: Well, people who operate in a check cashing mode, I think have a much simpler existence than a person who has to operate in an electronic transfer mode. If you -- Most of my clients get their checks. They go. They cash their checks. They get money orders when they need to. But often times as was commented, they have a lot of security in going to wherever they need to pay their bills. That's why we have all over the city, for example, public utility payment stations. People can go pay their electric bill, their gas bill, their whatever, at these locations. They're not -- many of them are very uncomfortable even in using the mail to make payments. They've often had some experiences with their checks not being delivered by mail, too.

But, what I've observed is that some are reluctant to go with the electronic transfer because there's no certainty that those funds are there. They almost feel like they have to call. They have to have some contact. They have to hear a voice that says, oh, yes, your Social Security check was deposited into that account, X number of dollars. And then there may be some insecurity about doing that because the institution may charge a set fee for each one of those inquiries. And they -- and especially if they make an inquiry again later on during that same month, they may get charged for that.

But I think it's just generally overall if I can feel it, and hold it, and touch it, then it's real and it's money. And writing an X or signing your name is about the only thing you have to do with a check. We're all pretty much used to that. But, if you have to follow some instructions on how to use an ATM or how to use POS, that can be real difficult.

Now, with the Lone Star card in Texas, some of that is made a little bit easier by the fact that there was some training that was available to people. And there's often assistance available since, as Stan pointed out, the ATMs haven't bought into that system. So, you go to the grocery store and I think now legislatively this year they've mandated that if you want cash, you have to go to a separate customer service place in the grocery store to get the cash. You can only use your card for food as you go through the line. So, in some ways, those enable people who are not familiar with that system as to how to issue it.

And then there's the problem with the PINs. We have many examples that I'm aware of of people who keep forgetting their PINs and they're not -- they don't want to write it down and have it with them with their card because they're concerned that if one is stolen, the other might go with it, and somebody can negotiate all their funds. So -- but, they find themselves not remembering it. And sometimes when those numbers are assigned by somebody else, it's particularly difficult for them to remember.

MODERATOR LANE: Ms. Cortez.

MS. CORTEZ: I just wanted to add. On there, as far as signing their name or putting an X, they are given that money to where they can count these are so many, 20, 40, 50, 60, so they know what it is. Whereas, your having to read on POS or the ATM, it's written. They can see the difference in the characters as to which amount that might be.

And, we do have, and continue to have, a problem with letters, especially in the older population. There was a lot of people that did not experience school. And what they've learned, they've learned by the school of hard knocks. But, they are able to -- Money is one thing that they can see because there are different changes in each character of each bill denomination.

MODERATOR LANE: I have a question for Mr. Paur.

You commented on the number of ATMs that were available through this network. Could you discuss the adequacy of the point of sales network or how extensive point of sale is?

MR. PAUR: Yes, I'd be happy to.

Throughout the southwestern United States there is a very pervasive network of point of sales terminals, particularly in Texas as a result of the Lone Star EBT program. Virtually anyone who takes food stamps in the State of Texas today has a terminal and PIN pad, and those devices could easily be adaptable to the EFT 99 program.

And, to Ms. Cortez's comment about paying the fee at an ATM, the other ancillary benefit of having that very pervasive network of point of sale devices is that virtually all merchants that are involved in the distribution of food, or convenience stores, or even gas stations, will allow for cash back with a purchase, or even without a purchase. And they do not charge for those transactions as they do at an ATM.

So, I think that we're very blessed in the southwestern United States that virtually all the grocery stores and even places like K-Mart, Target, Walmart, take the card and have PIN pads. And I think it works very, very effectively.

MODERATOR LANE: Questions from Mr. Hammond or Mr. Stout?

MR. HAMMOND: The question I wanted to

follow up a little bit and I think Bettsy already touched on it, was in the nature of the public education campaign there were a number of comments about either holding back on the campaign or that the information itself may be incomplete. And, I was curious with regard to the incompleteness, what other messages are people looking for that should be included within the campaign?

MODERATOR LANE: Any panelist want to -- Ms. Cogburn? Mr. Brown.

MR. BROWN: Again, like I stated a while ago, that the Treasury could work with community groups like ACORN because we're out there. We're knocking on doors, from door, to door, to door. And we -- each one of our neighborhood groups meet once a month. But any information they need, whether it better services, better police protection, whether it's best store to shop in -- not necessarily the best store to shop at but if the store is not providing services that you think it should, let us know and we'll go in and correct it up.

So, we have that trust within the

community. And so, if the Treasury could work with -- I know we can't do it here today but if they can set up some other meeting with ACORN, groups like ACORN. Because we're not just here in Dallas. We're in 26 states all over the United States. And, we could sit down and discuss what issues that could be beneficial to make sure that the people are getting the right information.

MODERATOR LANE: Are there other comments? Mr. Paur.

MR. PAUR: Yes, I alluded to the fact that in 1989 our organization ran a pilot EBT program in Houston. And it's interesting to hear the panelists today. It seems to me the challenge has been, and remains one, of education. And education among the recipients as to how this system works, what the alternatives are, precautions they must use in protecting the card and the PIN. The same challenges that are faced in the private sector by the banking community also must be transferred to the recipient population, the unbanked.

The one comment that I would make relative to this -- to the project that we conducted, I was absolutely amazed at how quickly the recipients even-- and the unbanked recipients adapted to the technology and would become proficient in using it.

So, we're very bullish on the opportunity that this presents. We certainly understand and recognize that there are unique challenges and issues that must be dealt with by Treasury. But, again, we're very optimistic and enthusiastic about the potential of this.

MODERATOR LANE: Mr. Gette.

MR. GETTE: I think Treasury has some hard decisions to make about all the different options that might be available. And I think the gist of the testimony that I gave is to simplify the process a little bit more by making the ETA account available to more people with less restrictions than what's in the proposed regulation. And to make the waivers fit the population. Not that all those who might even fit within a waiver would choose it.

But I think the important consideration here is to consider what all the options might be before there is a campaign to educate the public. Let people know what the benefits of starting your own accounts would be. Let people know what would happen if you go into the ETA account. Let people know if they're going to be put into a situation where they may be depending upon fringe bankers, get -- Once those things are settled in the rules, with the benefit of all the comments that you all are receiving from all over the country, then I think the campaign is ready to go forward and you won't have to back track and say, whoops, we've changed that now. This is an option that's available to you now that we didn't think was going to be available before. That's the gist of what I'm saying.

MODERATOR LANE: Ms. Cortez.

MS. CORTEZ: One thing that I want to be sure and add, depending on whoever company that you identify for marketing purposes and outreach, the education component is very important. But the other thing that has to be considered is that language. And, looking at it from my perspective, of the hispanic community, that Spanish is not the same

Spanish if you are in the southwest of Texas as Spanish that is in New York or Spanish that is in Miami, or Spanish that is in Nevada. Whatever it is, that it needs to be considered as being more localized, more identified, for that particular section. A lot of people do not always trust an unknown. They trust more a person from their own particular area. So, that is one of the things that we encounter quite often. Something that is written out in Spanish and everybody says, oh, this is great. But, the Spanish that may have been from a person that they're more -- their background is more Puerto Rican or maybe Cuban, or maybe the interior of Mexico in deference to the Texas border, Texas-Mexico border. So, there are so many different distinctions and that's not even taking into account the Asian languages that there are so many different dialects and differences in tones.

MODERATOR LANE: Ms. Cogburn.

MS. COGBURN: When we start our education program, every program that we give to a group, the first question they're going to ask is where do we go.

And if we don't have the answer, we've wasted our educational material for that group. So, we have to have some hard facts, the regulations, before we go forth with it.

We'll do it. We're going to have a short time. I can tell by the span it's going to be a short period and we'll have to do it fast and hard, but we will.

MR. HAMMOND: I just had one last question. And it gets to the issue of access. And I think there was a recurring theme that certainly in some neighborhoods that the availability of bank branches are few or perhaps more difficult to access than they may be in all neighborhoods overall. And I guess the question I have is, in relation to those neighborhoods, how extensive is the access through POS and ATM networks in those same neighborhoods where bank branches may be a little more difficult to locate?

MS. COGBURN: I believe the man on the end down there could tell you we have places like 5th Ward, wards there, there's been no banking facilities up to a few years ago. I think he could answer that, about the machines.

MODERATOR LANE: Mr. Paur.

MR. PAUR: Yes. I'd say the placement of ATMs in those markets is probably limited. I would tell you that the deployment of point of sale terminals in that market is probably pervasive because any entity that took food stamps heretofore and, for example, the State of Texas, is almost certainly equipped with a PIN pad and a terminal. And most of those merchants I would say give back, if not all, give cash back.

MODERATOR LANE: Ms. Cortez.

MS. CORTEZ: In his reference to the Lone Star card, yes, those are available. But the ATMs, it's correct. They are not out there in some of these neighborhoods. And there is limited access to grocery stores which is the normal point of having those POS's. So, there are a number of locations in an urban area like Dallas, and not looking at any rural areas, as to what would be available.

MODERATOR LANE: Thank you very much,

Panel Number 2.

I'd like to remind everyone that the transcript of today's proceedings will be available in approximately two weeks. I mentioned that it will be available over the Internet on the Treasury's Web site. For those people who don't have access to the Internet, if you would prefer to receive a paper copy, please see someone from Treasury after the hearing and we can make that available to you.

I would also encourage you to submit comments in writing before the December 16th date. This transcript will be a part of the official record but I would encourage you, if you want to make official comments, please do that.

Thank you very much for coming today.

(Whereupon, at 11:40 a.m., the public hearing was concluded.)